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Towards a national minimum wage: what do we know about wages and employment in agriculture?

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- Agriculture is a good sector to learn from when considering a national minimum wage because:
 - It is historically a low-wage sector
 - It has been shedding jobs
 - It is enormously diverse
 - A minimum wage was introduced recently (2003)
 - The outcomes have partly contradicted predictions, especially since the 50% increase in 2013.

Long-range trends in agriculture and farm employment

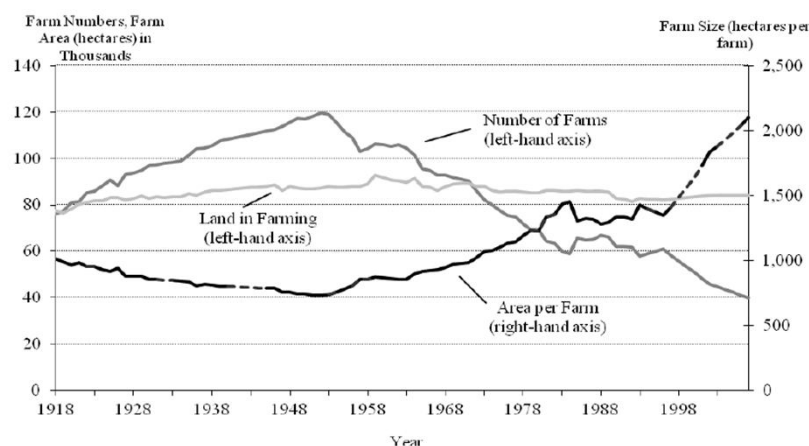


Figure 2: Number, total area and average size of farms, 1918–2007

Source: Liebenberg et al. (2010)

Note: Dashed sections of farm size plot indicate estimates (via linear interpolation).

Source: Frikkie Liebenberg and Philip Pardey. 2012. A long-run view of South African production and productivity. *AfJARE*. Vol 7, No 1.

Long-range trends in input cost shares

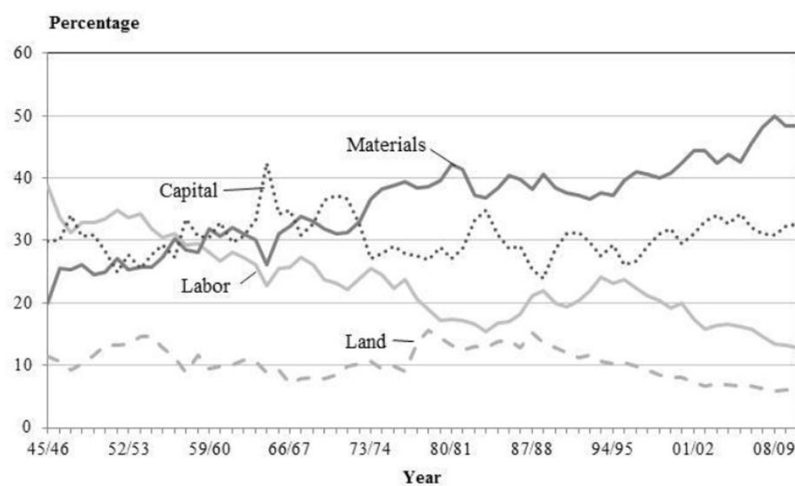


Figure 3: Input cost shares, 1945–2010

Source: Frikkie Liebenberg and Philip Pardey. 2012. A long-run view of South African production and productivity. *AfJARE*. Vol 7, No 1.

Selected data on commercial farms 1971 to 2007

Year	Commercial farms	Employment	Average employees / farm	Average remun / employee (R/worker/ year)	Wage bill (R mn)	Average wage bill / farm	Average expend on fixed impls & machinery / farm
1971	90,422	1,516,013	16.8	3,586	5,437	60,126	85,786
1985	65,880	1,323,694	20.1	5,385	7,128	108,200	116,142
1993	57,980	1,093,265	18.9	5,985	6,543	112,856	89,281
2002	45,818	940,820	20.5	8,219	7,733	168,773	177,729
2007	39,982	796,806	19.9	10,807	8,611	215,378	211,060

Sources: Department of Statistics, 1974; Central Statistical Service, 1986; Central Statistical Service, 1998; Stats SA, 2005 & 2009.
Note: All Rand figures are in constant 2007 Rand.

Findings of DoL study towards a sectoral determination (2001)

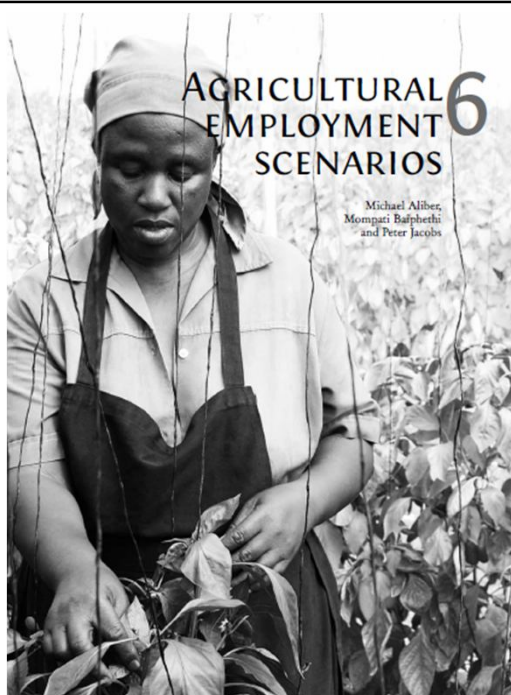
- Children living on commercial farms are more likely to be stunted and underweight than any other children – almost one in three. Only one in four children on commercial farms are 'food secure'.
- **Winners:** Minimum wage needed to provide a floor for wages, while growing inequality in the labour force will still enable upward mobility for skilled workers.
- **Losers:** Job losses would likely most affect unskilled workers, women and youth.
- **Social wage:** Minimum wage is one contribution towards taking people out of poverty – cannot expect it to achieve this by itself
- **Structural adjustment:** Minimum wage would lead marginal businesses only viable through exploiting workers to exit the sector, making way for others.
- **Parity:** Best justification for minimum wage is to reduce inequality *between* sectors – ie. allowing super-exploitation in one sector while regulating others.
- Jobs as a means to reducing poverty – but not necessarily! The working poor....

Sectoral Determination 2003

- Two-tier approach
 - Ranking of districts based on existing wage levels
 - Average % increases of 4% to 44%
 - No ability or attempt to determine affordability
- Merged into a single national minimum in 2009
- For several years based on previous year's wage + CPIX + 1%, causing erosion in actual value especially in a context of food price inflation

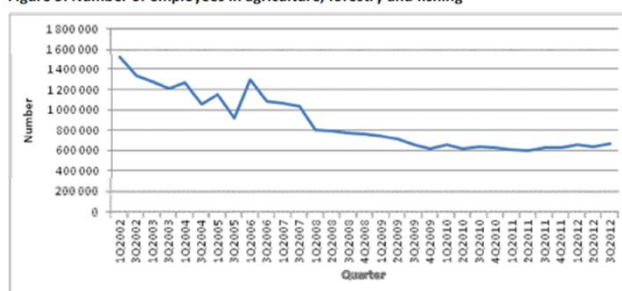
Lessons from scenarios

- Increases in formal agricultural employment can only be achieved as a temporary shift to a higher level from which the sector's characteristic pattern of employment decline would continue.
- The only policy option which could shift employment in commercial farming to a higher level and to sustain this over time involves commercialisation of agriculture in the former homelands – though this could be at the expense of the smallholder sector.



Employment trends 2002-2012

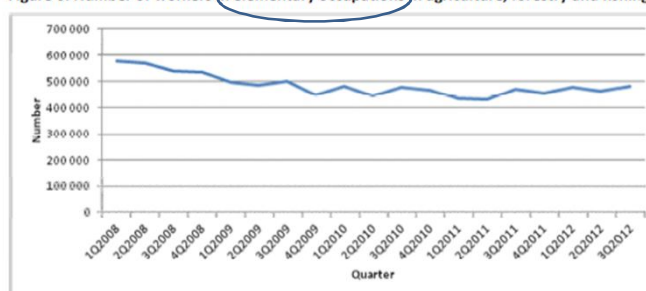
Figure 5: Number of employees in agriculture, forestry and fishing



Source: StatsSA LFS and QLFS

Employment trends 2008-2012

Figure 6: Number of workers in elementary occupations in agriculture, forestry and fishing



Source: StatsSA QLFS

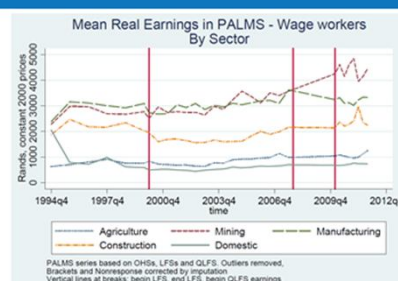
Recent changes in farm employment

- **589 000** workers in 2008
- Decreased by 78 000 to **510 000** by 2011
- Increased by 9.7% per year to **613 000** during the first two quarters of 2013.
- Reasons for the reversal (bounce-back) = mostly due to good commodity prices – but higher exchange rate has a double-edged effect (mostly positive)

Source: Frikkie Liebenberg & Johann Kirsten. 2013. *Statistics on Farm Labour in South Africa*. Pretoria: University of Pretoria.

- DPRU showed sectoral determination made only a modest contribution to real average wages – until 2013 increase – partly due to low incremental weaknesses but probably also very weak enforcement.

Real Average Wages By Sector



Source: Wittenberg (2014), *Analysis of employment, real wage, and productivity trends in South Africa since 1994*, 20.



Bad news not necessarily due to minimum wage

- DPRU showed the 'bad news' in agriculture: dramatic job losses – but attribution to the introduction of the minimum wage is weak.
- Economic modelling done on the basis of 'average' farms per sector (eg. apple and pear) which over-represents the smaller and more marginal farms.

FARM SECTORAL DETERMINATION: AN ANALYSIS OF AGRICULTURAL WAGES IN SOUTH AFRICA

A report by BFAP



December 2012

The farmer's dilemma

- Scenarios of R70, R85, R95, R105, R115, R150
- Found that most farms could not afford even a R20 increase – would be unable to sustain employment levels, or repay debt.
- This does not imply an end to production, but 'structural adjustment' but mechanisation, labour-shedding, shift towards higher-skilled labour, and consolidation of enterprises.

The worker's dilemma

- Use the 'basic food basket' index to show affordability of adequate nutritious food (as opposed to CPI-based figures)
- Farm worker households spend average 42% income on food
- 24% increase in basic food basket in 18 months prior to farm workers' strike
- R69 / day does not allow even a single worker to achieve food security – let alone a household.

- **Farmers' dilemma:** The study showed that many farmers could not afford any increase above R10-R20 pp/pd and predicted major job-shedding and economic decline should a higher wage be imposed – ie. even R105 was too much.
- **Workers' dilemma:** It also showed that even with substantial increases in wages, worker households would unlikely be able to afford sufficient nutritious food – ie. even R150 was too little.
- BFAP report looked at **R105 as an example close to the mid-point** between R150 demand (unaffordable) and existing R69 level (politically untenable).
- **R105 adopted** as new minimum wage w.e.f. March 2013.

Outcome of R105 / day

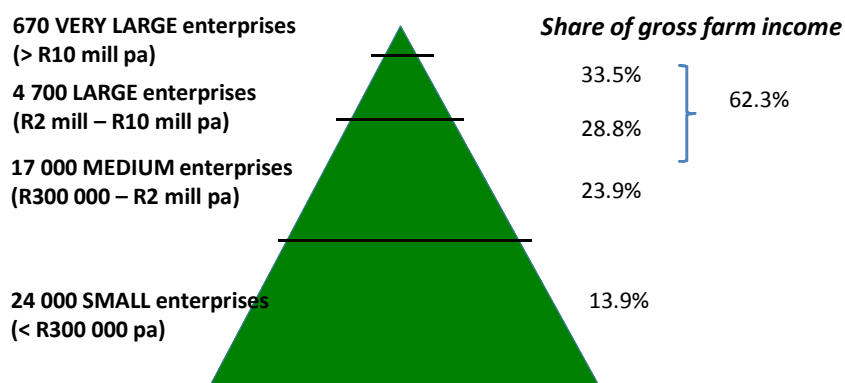
- Most farmers had absorbed the new minimum wage of R105 a day, a 50% increase on the prior R69 a day.
 - 26,000 jobs (3.5%) lost in March-June 2013
 - But R2 billion added to wage bill.
- ‘The drop in employment is a very small one given the magnitude of the numbers and the size of the increase in the minimum wage. I don’t think that the hype over the minimum wage was warranted.’ – Frikkie Liebenberg, University of Pretoria
- Long-term trend of steadily rising employment in agriculture since June 2011, along with a large shift from casual and seasonal to permanent employment – ie. both are *reversals* of previous trends.

How do agricultural economists explain this?

1. Growing demand for labour, especially higher-skilled labour in more precision-based farming
2. Labour-substituting mechanisation has been largely achieved – not much further scope
3. More marginal farm enterprises have already retrenched, or gone under
4. Farms need to retain labour-force to retain production levels
5. Farmers have been able to adjust production systems to make the new wages affordable – ‘structural adjustment’.

Source: Carol Paton. 2013. Few farm job losses despite big minimum wage hike. Business Day, 2 August 2013

Commercial farming enterprises by annual turnover (2002)



Total in 2002: 45 000 farming enterprises
on 82 million hectares (67% of total land area)

(In 2014: < 35 000 farming enterprises)

Source: Ben Cousins. 2014. Rethinking Agrarian Reform in South Africa. Seminar, University of Western Cape, August 2014.

Agrarian structure in 2014: highly concentrated ownership and production

- Top 20% of large-scale commercial farmers on private land; 7000 farms; almost all white-owned
- Sophisticated, specialized, capital-intensive farmers, producing for export or for agro-processing and large retailers
- Produce bulk of produce, perhaps as much as 80%
- Medium- to large-scale commercial farmers on private land; 9000 farms; almost all white-owned
 - Some farmers succeed, some struggle, some are unable to earn a living from farming alone
- 'Small'- to medium-scale commercial farmers on private land; 19000 farms; mostly white, some black
 - Many cannot survive from farming alone; includes hobby farmers

Source: Ben Cousins. 2014. Rethinking Agrarian Reform in South Africa. Seminar, University of Western Cape, August 2014.

A special dispensation for agriculture?

- DPRU argued for this, on the basis of the 'social wage' provided by farm owners.
- But this 'social wage' is:
 - (a) shrinking anyway – rapid decline of paternalist provision of goods and services (eg. payment in kind) – see Du Toit & Ally 2003)
 - (b) difficult to quantify, monitor and enforce (eg. 10% deduction for quality housing widely abused) (Wisborg et al 2013).
- And this ignores the absence of the 'social wage' of urban workers in the form of services.

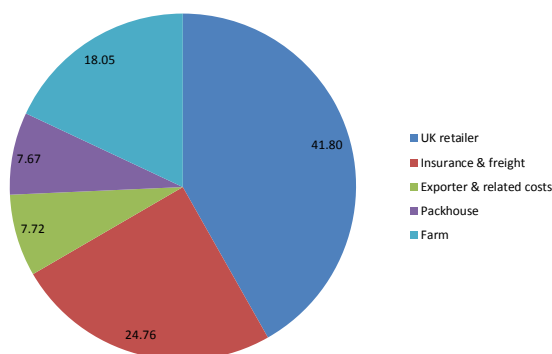
Periodising change in employment

- Adjustments in farm employment have responded to many factors other than the introduction of minimum wage.
- The primary force of long-run change underway is the product of deregulation and liberalisation policies – rather than wages.
- This is evidence if one periodises the changes.
 - From prior to 1990 through to 2010: job shedding overall and casualisation within the labour force
 - 2011 onwards (before & since 50% increase): reversal towards job increases and permanent employment
- Forecasts in 2012/3 of the extent of job losses have been exaggerated, as recognised by the same agricultural economics departments that predicted them.
- Reasons have to do with the flexibility of substitution among inputs and the distribution of input cost shares, improved productivity, as well as 'entrepreneur remuneration' (ie. profit).

Conclusions

- Macro-economic policy is the primary cause of the decline of employment in primary agriculture.
- This is closely associated with the trend towards consolidation of farm ownership and enterprises up and down the value chain – ie. restructuring.
- Rising cost of intermediate goods rather than labour, land or capital, plus growing power of downstream intermediaries and retailers, are the main explanatory factor in the cost-price squeeze in agriculture – not labour costs.
- Wage determination has modestly increased real average wages and the overall wage bill, while the decline in employment has tapered off, and the numbers of workers per farm is stable.

An illustration: table grapes in Hex River (context for the 2012/13 farm worker strike)



Reflections

- It is essential to recognise this macro-economic policy context, and the pressures it is placing on farm enterprises.
- Wage policy cannot and should not be used to compensate for the failures of macro-economic policy and trade policy to provide for a sustainable growth environment for agriculture.